4. War Pipelines and Peacetime Markets

WORLD WAR II boosted energy demand while hastening the construction of pipeline systems capable of transporting fuel to vital consumption centers. Wartime energy shortages spawned new oil and gas pipeline construction between the Southwest and Northeast. But American wartime energy requirements placed a far greater burden on the oil industry than on the natural gas industry. As the lifeblood of the war, oil attracted intense government and industry attention. The United States was the primary supplier of both fuel and war material to the Allies, who required tremendous amounts of petroleum to build and power an assortment of equipment from bombers to tanks. To ensure the flow of fuel for the war effort, the United States government supported increased petroleum production and financed the construction of five petroleum pipeline systems.¹

Two of the government’s war emergency pipelines, the Big Inch and the Little Big Inch, were particularly vital to the war effort. These were the longest petroleum pipelines ever constructed. The 24-inch-diameter Big Inch extended 1,254 miles from the East Texas oil fields at Longview, Texas, to Phoenixville, Pennsylvania, with extensions to points near New York City and Philadelphia. The 20-inch-diameter Little Big Inch originated in the refinery triangle area of Port Arthur and Houston and extended to Linden, New Jersey (see map). The Big Inch carried crude while the Little Big Inch transported refined products.

During the war, the Inch Lines became heroic symbols of the American energy industry when they replaced a crippled oil tanker fleet. Early in 1942, German submarines began sinking U.S. oil tankers transporting petroleum from the Gulf Coast up the Atlantic seaboard. The submarine
attacks, and threat of attack, virtually halted the ocean-going oil transportation system and threatened the East Coast and the Allies with an oil shortage. "We tried to keep that [shortage] a secret," recalled one government official. "It was a necessary effort not to let the Germans know how much damage they were doing but we just couldn’t move the oil."2 During 1942, oil tanker shipments from the Gulf Coast to the New York harbor area fell from an average of 1.5 million barrels per day to approximately 75,000 per day.3 Quickly, and with RFC financing and WPB steel priorities, eleven major oil companies under contract with the government built the Inch Lines to alleviate the northeastern oil shortage. Together, the Inch Lines delivered more than 350 million barrels of crude and refined products during the war. In evaluating the contribution of the Inch Lines to the war effort, one petroleum pipeline historian wrote: "It would be difficult to measure what the availability of this amount of petroleum and petroleum products meant to the war effort, both overseas and at home. But clearly it was a major contribution."4

THE INCH LINES AND PUBLIC POLICY

The postwar fate of the Inch Lines, the only pipelines that directly connected the Texas oil and gas region with the Philadelphia and New
York City area, quickly became the focus of a "classic clash of interest groups."\textsuperscript{5} Large oil companies argued that the Inch Lines were unnecessary for peacetime petroleum transportation systems and should be converted to natural gas. Some smaller independent petroleum firms believed that the Inch Lines could be successfully operated as oil lines, but the industry as a whole rejected this idea.\textsuperscript{6} The coal and railroad industries uniformly objected to the possibility of converting the Inch Lines to natural gas carriers. They believed that the introduction of natural gas into the Northeast would displace the sale of both coal and manufactured gas and generally disrupt the coal industry. Railroad companies which transported coal for the coal companies likewise feared that a drop in coal demand due to the introduction of natural gas into the Northeast would disrupt the railroads as well.

Even before the war ended, however, several major oil companies actively supported the concept of the postwar conversion of the Inch Lines to natural gas to keep them out of petroleum transportation. Sidney A. Swensrud, vice president of the Standard Oil Company (Ohio), was one of the most vocal proponents of this view. Early in 1944, he presented what was essentially an oil industry policy statement on the Inch Lines. In a paper entitled "A Study of the Possibility of Converting the Large Diameter War Emergency Pipe Lines to Natural Gas Service after the War," Swensrud echoed the concerns of his industry: "The disposition and future use of these lines constitutes, in the minds of many people, one of the most important problems of post-war readjustment in the Oil Industry."\textsuperscript{7} Swensrud concluded that the Inch Lines could successfully and economically transport natural gas from the area of the nation's greatest natural gas reserves in the Southwest to the densely populated Northeast without causing a serious disruption in the coal industry. At the heart of the matter, however, was the fact that peacetime transportation of petroleum by oil tanker was expected to be less expensive than by pipeline. Further, no oil company wanted to see a competitor controlling the two Inch Lines, which might potentially monopolize the oil transportation industry. Thus, Swensrud was so intent on keeping the Inch Lines out of petroleum service that he and J. Howard Marshall, former chief counsel and assistant deputy administrator of the PAW and president of the Ashland Refining Company, secretly bankrolled a public relations effort favoring the conversion of the Inch Lines to natural gas.\textsuperscript{8} The debate over the Inch Lines continued and intensified after the conclusion of the war.
During late 1945, the RFC discontinued wartime operations of the Inch Lines, and the governmental process of determining their postwar future began. The Inch Lines, along with all other war surplus property, became subject to the jurisdiction of the Surplus Property Act of 1944, which required the Surplus Property Administration (SPA) to determine the best disposal policy for all war surplus property. The act stipulated that the SPA could not sell any property when a monopoly might be created, encouraged the SPA to develop new businesses through the sale of surplus property, specifically mandated the sale of all surplus government-owned transportation facilities in order to promote an adequate and economical national transportation system, and required the SPA to obtain for the government the fair value of the surplus property at the time of the sale. In addition, the act gave the United States government the legal right to reacquire and operate the property in the event of another national emergency.

As the demobilization process gained momentum, war surplus property disposal and policy functions were separated into different agencies. On November 9, 1945, the War Assets Corporation began administering the disposition of certain categories of war surplus property including all property, such as the Inch Lines, officially owned by the Department of Commerce and the RFC, while the SPA retained jurisdiction over disposal policy. In order to make its own recommendation as to the disposition of the Inch Lines, the RFC hired the engineering firm of Ford, Bacon & Davis, Incorporated, to study the options for their postwar use. The firm’s report, issued on August 15, 1945, advised that both Inch Lines should be converted to natural gas transmission. Although this consulting report was not binding, it did provide an initial assessment of the postwar commercial value of the Inch Lines. Soon after receiving the report, the RFC began its own public inquiry on September 14 by mailing telegrams to 135 users and potential users of the pipelines and requesting general inquiries or informal bids for the purchase or lease of the lines.

At the same time, Senator Joseph C. O’Mahoney (D-WY) prepared a series of special hearings to consider how to dispose of the government’s vast array of war surplus petroleum property. The hearings lasted for three days, from November 15 to 17, 1945, and they provided a forum for representatives of competing industries and interests to speak publicly about the disposition of the Inch Lines. A total of twenty-eight representatives of government agencies, railroads, oil, gas, and coal interests presented oral and written statements. Opinions regarding the Inch Lines
generally followed self-interest and represented vastly different views: natural gas representatives supported a government sale of the lines to a gas company, coal and railroad groups suggested scrapping the lines or using them for oil transportation only, and major oil companies stated the lines were not needed for a peacetime oil pipeline network, but independents wanted them in petroleum service so that they could have access to the large markets without using pipelines controlled by the major oil companies.

The first witness at the hearings was W. Alton Jones, president of the War Emergency Pipelines and chairman of the Committee on Postwar Disposal of Pipe Lines, Refineries, and Tankers. In discussing options for peacetime use of the Inch Lines, Jones acknowledged that they had raised controversy even before they had been built. In response to questions, Jones admitted that some oil and railroad companies contributed to the initial delays in planning for the construction of the Inch Lines by insisting that they have no postwar economic use. Jones also recalled that during some of the early planning conferences for the construction of the Inch Lines, some participants discussed the possible peacetime use of the Inch Lines for natural gas transportation. In discussing the development of a policy to guide their sale, Jones made four recommendations: (1) Because of their military value the lines should not be scrapped; (2) the lines should not be utilized in the postwar period for the transportation of crude oil or refined products either to the East Coast or to the interior; (3) under certain conditions, it would be feasible to convert the lines to natural gas service; and (4) in the event that the lines were not converted to natural gas service, they should be removed from use by congressional direction and held as a military asset.\textsuperscript{12}

Several other persons testified on their interest in acquiring the Inch Lines. Charles H. Smith, a veteran of the coal industry, told the congressional committee that he represented a group of persons interested in purchasing the Inch Lines for natural gas transmission. He described himself as a mining engineer and consulting public-utility engineer with a company in New York. As the chief consulting engineer for the Ordinance Department and for the Bituminous Coal Administration during the war, Smith recognized the opportunities offered by the Inch Lines for natural gas service. Smith was not insensitive to the needs of the coal industry, and he stated that the loss of manufactured-gas markets to natural gas and the resulting decrease in coal demand might be mitigated by an increased exportation of American coal to Europe. Smith described the extensive
destruction of European coal mines during the war, and he believed that postwar Europe would depend on the American coal industry for supply. Smith also argued that the Inch Lines would provide work in the gas fields for returning soldiers and other unemployed people. He believed that natural gas, a less expensive boiler fuel than fuel oil or manufactured gas, would increase production of finished products in New York. According to Smith, these finished products would increase railroad shipments, yield more employment opportunities, and offset any resulting railroad coal transportation reductions.\textsuperscript{13}

Another witness supporting conversion to natural gas was Claude A. Williams, a forty-one-year-old Austin-based attorney representing his uncle, Rogers Lacy, who owned large natural gas reserves located in East Texas. Williams had been the assistant secretary of state in Texas between 1938 and 1940 and the chairman and executive director of the Texas Unemployment Compensation Commission from 1940 to 1945, when he began working with his uncle to market natural gas. Williams and Lacy were part of a group of gas reserve owners, which also included the Alfred C. Glassell family, planning to form a corporation to buy the Inch Lines and convert them to the transportation of natural gas produced from Texas fields. Williams's plan was to operate the Inch Lines as common carriers so that any producer could transport natural gas to the Northeast on a pro rata basis depending upon the carrier's natural gas production and the capacity of the Inch Lines.

Williams recognized the increasing pressure on politicians to address the issue of Texas flare gas. Many oil drillers valued gas only as a medium to provide the necessary pressure in oil wells to lift the oil through the drill casing to the surface, and these drillers typically either allowed the gas to escape into the atmosphere or flared it at the wellhead. Referring to the tremendous volume of waste gas, Williams began his testimony with a humorous story. He told of an Irish admirer of Patrick Henry who was unable to speak at a meeting. Instead, he gave a note to the chairman that said, 'I regret very much that I am unable to speak to you folks tonight because I seem to have a lot of gas on my stomach, and, as Patrick Henry would say, it is crying out, 'Give me liberty or give me death.' "\textsuperscript{14} With this story as a preface, Williams argued that there was simply too much natural gas in the Southwest to continue to neglect or waste as oil companies had been doing. Williams stated that as much as 1 bcf/d of natural gas was being flared instead of shipped to market. Citing the success of the Tennessee Gas Transmission Company in selling gas
produced on the Gulf Coast in West Virginia, he said that southwestern
gas could be used by eastern consumers. If the Inch Lines were not sold
for natural gas use, he maintained, gas companies would no doubt build
other natural gas pipelines following the same route.

E. Holley Poe, the former AGA and PAW gas official, also spoke in
favor of converting the lines to natural gas. Poe had left the PAW sixteen
months earlier to form a natural gas consulting firm called E. Holley Poe
and Associates. After leaving PAW but before starting his own firm, Poe
was the executive vice president of the Petroleum Reserves Corporation,
a government agency under the RFC designed to investigate foreign oil
supplies. Poe did not stay with the PRC long and may not have impressed
his colleagues there. In one meeting at which he was absent, the minutes
of the PRC reported that "although it was generally agreed that the
present Executive Vice President of the corporation had done a highly
creditable job, . . . the corporation should obtain . . . a man of out-
standing ability who would not be objectionable to the industry and who
would command public confidence."15 In any case, Poe's entrepreneurial
leanings and expert knowledge of the gas industry had led him to the
conclusion that the Inch Lines offered both opportunity and profit.

Poe did not mention at the hearings that he was also actively engaged in
a plan to acquire the Inch Lines. He, internationally famous geophysicist
Everette DeGolyer, and Norris McGowen, president of United Gas
Corporation, the largest gas distribution company in the Southwest, had
been following the developments surrounding the Inch Lines for at least
two years. McGowen's United Gas controlled the largest southwestern gas
distribution system and was a major gas producer—capable of supplying
the Inch Lines with gas for northeastern markets.16 Poe presented a
forceful statement on the great potential for natural gas transmission
through the Inch Lines. He showed that a potentially huge market for
natural gas existed in the northeastern states. Using studies done by
Everette DeGolyer, Poe argued persuasively that this market could be
served by the tremendous natural gas reserves in the southwestern states.
Poe claimed that the Inch Lines could be operated at about 80 percent
capacity and supply the major metropolitan areas in Pennsylvania, New
Jersey, and New York. Cognizant of the coal industry's fear of natural gas,
Poe proposed that natural gas be used only to enrich manufactured gas so
that no coal would be displaced. The enriching process normally used
water and petroleum, and Poe estimated that as many as ten million
barrels of enriching petroleum per year would be displaced by natural gas.

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But spokesmen for the petroleum industry did not object to losing this business. Even if some residential coal gas was displaced, Poe argued, "out of a total of some fifty-five million or fifty-six million tons of bituminous coal and seventy million tons of anthracite coal that goes into the area, you will probably find less than three percent goes into the manufacture of gas." Poe did not address the effects of direct competition between natural gas and coal for industrial markets. Instead, he suggested that natural gas and coal companies could coexist in northeastern markets. But Poe also spoke bluntly about the coal industry's lobbying efforts to block competition from natural gas. "I cannot be too concerned," he said, "about the position of the railroads and of the coal people. I do not think that any producer of a commodity has any inherent authority over any market so that he can make his market buy his product at a higher price than it should be sold for."17

Coal and railroad interests expressed adamant opposition to converting the Inch Lines to natural gas. Their basic argument concerned the potential for a loss of sales and jobs. Both F. C. Wright, Jr., representative of anthracite producers, and W. K. Hopkins, general counsel for the United Mine Workers of America, voiced fears that natural gas transported through the Inch Lines would displace 6 million tons of coal and translate into a loss of 11,650 jobs based on a calculation that each miner averaged 505 tons of coal production per year. These 11,650 unemployed workers would then draw about $780 per year in government relief for a total of $9.1 million annually. Hopkins was more general but equally emphatic. The Inch Lines, he said, "should not be leased or sold to private industry or be governmentally operated or subsidized. They should be held intact in reserve against any future national emergency. . . . [Oil or natural gas transportation through Inch Lines] would certainly tend to seriously interrupt and impede the post-war reconversion and recovery."18

O. E. Schultz, chairman of the Coal and Coke Committee, Trunk Line Territory, quantified the potential damage to the railroad industry resulting from a loss of coal load due to a conversion of the Inch Lines to natural gas. He said that natural gas would displace at least 20 percent, or seven million tons, of the annual coal traffic handled by the railroads to the Philadelphia and New York City markets. This coal displacement would translate into a loss of railroad industry gross revenue of up to $16,450,000 annually, which would convert into a loss of 3,306 jobs. James M. Souby, general solicitor of the Association of American Railroads, presented a similar argument.19
After the conclusion of these hearings, the Federal Power Commission began its own intensive hearings on the state of the natural gas industry. Known as the Natural Gas Investigation, docket G-580, these hearings took place throughout the nation between October 9, 1945, and August 2, 1947, with the last hearing in Washington, D.C. The FPC designed these hearings to elicit industry opinion on practically all aspects of the natural gas industry to assist it in administering the Natural Gas Act and to propose new legislation to improve the overall quality of the industry if that proved necessary. These hearings provided a new forum for those supporting, and opposing, use of the Inch Lines for natural gas transportation, but they only indirectly affected the fate of the Inch Lines.20

Having reviewed various studies and testimony from the O'Mahoney hearings, the Surplus Property Administration prepared in early January 1946 to issue its disposal policy for all surplus property including the Inch Lines. The SPA published this policy on January 4, 1946. The SPA report, commonly referred to as the Symington Report after SPA administrator W. Stuart Symington, disappointed natural gas interests as well as major oil companies by advising that the Inch Lines should be sold for petroleum transportation. The report noted that the pipelines would foster low-cost and dependable petroleum transportation for the small independents, which did not have access to either pipelines or tankers, and the report favored allowing a newly created petroleum company to operate the Inch Lines. It concluded that the Inch Lines "would be vital in the event of another emergency," and a "careful consideration of all the factors involved leads to the conclusion that the Big Inch and Little Big Inch should be kept in petroleum service." The report addressed the issue of converting the Inch Lines to natural gas and agreed that this was a viable possibility, but it found that to do so would greatly lessen the value of the lines, which were designed to transport petroleum.21 This conclusion pleased the coal and railroad industries, slighted the proposals from natural gas interests, and threatened the major oil companies.22

Representatives of major oil companies responded by letter to Senator O'Mahoney with a sharp attack on the Symington Report. Calling the SPA's recommendations "unsound and not in the public interest," the letter stated that only under ideal peacetime conditions (which would be impossible to attain) could the Inch Lines be economically operated as petroleum carriers. In addition, the letter observed that "it is most unfortunate that the SPA report implies that the lines were originally advocated by the industry with a view to post-war transportation of
petroleum. The opposite is true.”23 The authors went on to recommend either maintaining the Inch Lines in an idle state for use in a future emergency or allowing them to be used for natural gas transportation. If used for natural gas, the letter continued, petroleum fuel oil, not coal, would be displaced in the production of manufactured gas on the East Coast. The letter, though, had no influence on SPA policy.

Yet the Symington Report did not diminish the interest of several groups in using the Inch Lines to transport natural gas. Two companies led by persons who had testified at the O’Mahoney hearings submitted informal bids for the Inch Lines. Charles H. Smith had organized two companies for this purpose. One of these, Big Inch Oil, Incorporated, offered $40 million for the Little Big Inch to carry petroleum; and the other, the Big Inch Natural Gas Transmission Company, offered $40 million for the Big Inch to transport natural gas. Claude Williams, who along with partners had formed Transcontinental Gas Pipe Line Company in February, also offered $40 million for both Inch Lines to ship natural gas. The War Assets Administration (WAA) did not act on these or several other informal bids whose terms were not made public. The high value and widespread interest of various companies dictated that the SPA would have to provide a public forum for the sale of the Inch Lines, and the SPA had six months’ time to begin the sale process.24

Soon after the SPA issued its disposal policy report, President Truman issued an executive order consolidating surplus property functions into a new agency (the WAA). Truman then transferred the functions of the SPA to the War Assets Corporation and then merged the War Assets Corporation into the War Assets Administration, effective March 25, 1946. Significantly, the WAA was an agency within the Office for Emergency Management of the Executive Office, responsible to the president. The WAA, under its chief, Lieutenant General E. B. Gregory, now had singular responsibility for further policy questions and disposal of more than 90 percent of existing surplus property.25

THE FIRST AUCTION

The WAA prepared to sell the Inch Lines under the Symington Report’s guidelines. On June 7, 1946, six months after the publication of the Symington Report, and immediately after the RFC officially declared the Inch Lines surplus property and provided for their transfer to the War Assets Administration, the WAA announced an auction for the Inch Lines. All
bids would be due by July 30 and be opened and read the following day. The WAA advertised the Inch Lines for sale or lease nationally in thirty-eight newspapers and five oil trade journals. The advertisements described the government's disposal policy as recommended by the Symington Report: "In accordance with the disposal policy indicated in the Surplus Property Administration Report, first preference will be given to continuing the Big and Little Big Inch in petroleum service, thereby assuring availability of the lines in the event of a national emergency." The disposal policy stated that "special attention will be paid to offers which would give the many small and independent petroleum operators the opportunity of participating in both the use and acquisition of this facility in whole or in part. As the SPA report suggests 'this might be accomplished by the creation of a corporation, the shares of which would be held by various individuals, cooperatives, or associations.'"26

Although the advertisements also invited bids for converting the Inch Lines to natural gas, the WAA made clear that gas bids would receive lowest priority. The coal industry as a whole was pleased by this. Representative Walter of Pennsylvania, who had spearheaded an effort by the coal industry and labor unions against converting the Inch Lines to natural gas, also reported to the news media that Brigadier General John J. O'Brien, WAA deputy administrator, promised him that if no petroleum bids were adequate, the WAA would not act on the natural gas bids until Congress could be consulted. To this, Walter said, "I've won my fight. If bids from any of the oil companies are acceptable and the lines are continued in oil transportation, that's fine. Otherwise, we still have a chance to stop their conversion into natural gas."27 Walter represented Pennsylvania's official position that the Inch Lines should not transport natural gas into the coal-rich state. However, natural gas entrepreneurs continued preparing to bid on the Inch Lines, and large northeastern utilities began studying the possible effects of replacing some of their gas-manufacturing capacity with gas transported via the Inch Lines.28

The WAA received sixteen valid bids by the auction closing date of July 30. During a public hearing on July 31, WAA personnel read out loud each of the bids (see table 4.1).29 Of the bids submitted, seven proposed oil transportation, three were for gas, five proposed some combination of oil and/or gas use, and one did not state a preference. After all the bids were in, the WAA began the process of determining the winning entry. This proved to be more difficult than expected. The WAA had imposed no standards on the format for the bids, and this situation created serious
The table below lists the proposed use, terms, price, and cash at closing for bids on the Big Inch and Little Big Inch pipelines.

<table>
<thead>
<tr>
<th>Bidder</th>
<th>Proposed Use</th>
<th>Terms</th>
<th>Price ($ million)</th>
<th>Cash at Closing ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Inch Natural Gas Transmission Co.</td>
<td>gas</td>
<td>sale</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>Transcontinental Gas Pipe Line Co., Inc.</td>
<td>gas¹</td>
<td>sale or lease²</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>E. Holley Poe &amp; Assoc.</td>
<td>gas</td>
<td>sale or lease</td>
<td>80 or³</td>
<td>80</td>
</tr>
<tr>
<td>Glenn H. McCarthy</td>
<td>gas</td>
<td>sale</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Big Inch Oil, Inc.</td>
<td>oil</td>
<td>sale</td>
<td>110</td>
<td>66</td>
</tr>
<tr>
<td>J. W. Crotty &amp; Assoc.</td>
<td>gas¹</td>
<td>sale</td>
<td>127.5</td>
<td>5</td>
</tr>
<tr>
<td>Mutual Oil-Gas Transmission Co.</td>
<td>oil</td>
<td>sale</td>
<td>70</td>
<td>—</td>
</tr>
<tr>
<td>W. Lee Clemonts</td>
<td>oil¹</td>
<td>lease²</td>
<td>rent³</td>
<td>na</td>
</tr>
<tr>
<td>L. M. Glasco</td>
<td>oil</td>
<td>lease²</td>
<td>rent³</td>
<td>na</td>
</tr>
<tr>
<td>Frank M. McCraw</td>
<td>oil</td>
<td>lease²</td>
<td>rent³</td>
<td>na</td>
</tr>
<tr>
<td>J. H. Moroney</td>
<td>oil or gas</td>
<td>lease²</td>
<td>rent³</td>
<td>na</td>
</tr>
<tr>
<td>Noyack Oil Corp.</td>
<td>oil</td>
<td>sale</td>
<td>80</td>
<td>—</td>
</tr>
<tr>
<td>Russell Palmer</td>
<td>oil or gas</td>
<td>sale</td>
<td>135 (oil)</td>
<td>—</td>
</tr>
<tr>
<td>Ryford Pipeline Co.</td>
<td>oil</td>
<td>sale or lease⁴</td>
<td>30 or³</td>
<td>—</td>
</tr>
<tr>
<td>Sinclair Refining Company</td>
<td>oil</td>
<td>sale or lease</td>
<td>open</td>
<td>—</td>
</tr>
<tr>
<td>Syndicated Industries, Inc.</td>
<td>oil</td>
<td>lease²</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

**Notes:**

¹or both oil and gas.
²lease with purchase option.
³rent to be determined by rental formula.
⁴purchase of Little Inch and lease with purchase option of Big Inch; purchase of Big Inch at $40 million.

**Source:** “Analysis of ‘Big’ and ‘Little Inch’ Big Proposals,” War Assets Administration worksheet.

Problems, particularly in evaluating the financing of each bid; it was difficult to compare the bids in terms of their dollar values. While most of the bidders offered some cash for the pipelines, they proposed that the remaining cost would be covered by various forms of debentures, payments based upon gas sold, or other arrangements. In addition, the highest up-front cash amounts for the Inch Lines came from companies proposing to use the Inch Lines to transport natural gas.
The WAA decided to consider only the cash portion of the bid as the total bid price. After defining its pricing criteria, the WAA listed the highest bids as those proposing to use the Inch Lines for natural gas transmission. Both the Transcontinental Gas Pipe Line Company, led by Claude Williams, and the Big Inch Natural Gas Transmission Company bid $85 million in cash. The group led by E. Holley Poe, who had also testified at the hearings, had the second highest cash bid for natural gas of $80 million, after the WAA reduced its total bid of $100 million to $80 million, the amount of cash offered.

Charles H. Smith, representing Big Inch Oil, Incorporated, submitted a bid to use the Inch Lines to transport oil, which most closely met the WAA’s surplus property disposal policy as described in the advertisements. But his cash price of $66 million was substantially lower than those for natural gas; of a total bid price of $110 million, he offered $44 million in indentures. At the November hearings, Smith had stated his intention to purchase the Inch Lines for natural gas. But his bid was for using the pipelines as petroleum common carriers. Smith’s proposal stated that the pipelines would transport oil for the many small producers in Texas. Since the lines would remain in petroleum service, they would be ready for oil use in time of national emergency. The most unusual bid came from L. M. Glasco, who proposed to dismantle the Big Inch and then rebuild it from the Permian Basin in West Texas to California. It would then operate as a crude oil pipeline.

A few days after the WAA received the bids for the Inch Lines, it announced its priority in analyzing types of bids based upon the Symington Report’s recommendations. The order of preference of consideration was (1) oil, (2) oil and gas combinations, (3) gas, and (4) any other uses. Also, the WAA stated that bidders would be expected to produce substantiating data for their bids as the bids were being analyzed. One week later WAA notified each bidder to submit these extra data by September 9, 1946, a date later extended to September 16. The WAA continued to request additional information from bidders without coming close to reaching a decision.

Indicating the intensely political nature of the bid for the Inch Lines, almost all the bidding companies included high-profile former, and sometimes even current, political figures. Many powerful men had aligned themselves with various groups of investors looking to acquire the lines. Washington insiders lobbied for the various groups, and the lobbying reached a fever pitch. One bidder, Big Inch Gas Transmission
Company, included a former Ohio senator, an ex-justice of the Supreme Court, and an ex-chairman of the Maritime Commission. Attorneys for this company were listed as former Roosevelt aide Thomas Corcoran, a former general counsel for the FPC, and a former FPC commissioner. Another bidder, American Public Utilities, included a distinguished pair of Washington lawyers, former trustbuster Thurman Arnold and one-time undersecretary of interior for Harold Ickes, Abe Fortas. Maverick oil man Glenn H. McCarthy rounded out the list.\textsuperscript{31}

Another prominent bidder, E. Holley Poe, had also aligned himself with a cadre of powerful business and political figures. Poe originally worked with geologist Everette DeGolyer in formulating a bid for the Inch Lines. In later discussions with Charles Francis, a Houston attorney with the firm Vinson, Elkins, Weems, and Francis, at the FPC’s broad-ranging “Natural Gas Investigation” in which they were all involved, Francis agreed to work with the group to bid on the Inch Lines. These men soon recruited Reginald H. Hargrove, a vice president of United Gas Corporation, with the blessings of his boss, N. C. McGowen, to assist the group; at one point McGowen had taken a preliminary financial interest in the venture but soon decided that if United Gas controlled the Inch Lines, United Gas would be in violation of the PUHCA.\textsuperscript{32} The final and most important additions to the group were George and Herman Brown, of the Houston-based construction firm Brown & Root, who offered both financial backing and engineering support. Earlier in the century, Herman Brown had taken over a small road-building company from his former employer and, with the help of his younger brother George, turned it into a large construction company. Herman Brown was the rugged contractor who firmly controlled the company from the inside while George, the taller and more outgoing of the two, parlayed his contacts in both business and government into big construction contracts. The brothers were not new to dealing with federal agencies. They had built hundreds of destroyer escorts at their Brown Shipbuilding Company near Galveston during the war and participated in the construction of the Corpus Christi Naval Air Station.\textsuperscript{33}

The Brown brothers were well connected in both business and political circles. In Houston, they were part of the 8-F Group, which regularly met in Herman Brown’s suite in the Lamar Hotel, owned by RFC chairman Jesse Jones, who had provided financing through the RFC for both Tennessee Gas and the Inch Lines. In particular, the Browns were ardent supporters and friends of Lyndon Johnson. Francis later reported that he
solicited Johnson’s aid for his group’s bid, but there is no evidence that Johnson assisted the group. Nevertheless, Donald Cook, who subsequently became a highly trusted adviser to Johnson, helped complete research for the Poe group.

Another prominent Washington figure, George E. Allen, did associate with the Poe group. A former hotel operator and commissioner of the District of Columbia, Allen was a trusted friend, adviser, and speech writer for President Truman. Truman appointed Allen to the position of director of the RFC in January 1946. Through Frank Andrews, president of the New Yorker Hotel and cousin of Reginald Hargrove, Allen met several times with members of the Poe group to discuss its plans to bid for the Inch Lines.

While the various groups attempted to promote their bids, both overtly and covertly, Harold Ickes took a journalistic shot at the Poe group. At the time, Ickes published a syndicated column, “Man to Man.” He wrote an article about the Poe group entitled “Uncle Jesse’s Bid for Oil Pipelines Seen Loaded Two Ways for Monopoly.” In it, Ickes suggested that former RFC chairman Jesse Jones was behind the “so-called E. Holley Poe bid” for the pipelines. Ickes warned that “if the story is true, the War Assets Administration had better do some keen sniffing because Uncle Jesse has no peer among horse traders that I have known.” Ickes was more certain that George Butler, a Houston lawyer, “husband of Jesse’s only heir and custodian of many of Jesse’s enterprises, both business and political, is one of the E. Holley Poe crowd.” Ickes noted, however, that he liked Poe’s bid.

Ickes’s article set off a flurry of denials from Poe, Francis, and Butler. Poe wrote to Ickes and met with him two days later, assuring him that Butler and Jones were in no way connected with the bid. Francis did the same, and Butler issued a statement denying that he was part of any group interested in the Inch Lines. Ickes wrote to both Poe and Francis: “I cannot see that the column did your group any harm. On the contrary, it served notice on Jesse Jones that he was more or less suspect and he might be disposed to keep his hands off. That is really what I had in mind in writing the column.” Although there is no evidence that Jones ever had a direct interest in Poe’s bid, his close business relationship with the Brown brothers evoked suspicions that he may have been involved with the company’s early history.

Although Ickes apparently satisfied himself that he had at least warned Jones and Butler to stay clear of the Inch Lines, his article set off alarm
bells at the WAA. The agency requested from all bidders, the day after Ickes’s article appeared, a list of the “identity and business connections” of all individuals or firms associated with the particular bids.\textsuperscript{39} Poe responded to L. Gray Marshall of the utilities branch of the WAA that “my proposal and supplementary data discloses the names and official connection of all persons associated with me.”\textsuperscript{40}

But Ickes’s initial attack on the Poe group led to a correspondence with Poe and Francis that was important to their efforts. Ickes wrote that he believed the Inch Lines should be used to transport natural gas, and he assured Francis that he would soon write a column to that effect. Ickes subsequently reaffirmed in his columns that the Inch Lines should be used for natural gas and not oil, and his opinion helped the Poe group in its efforts to have the WAA change its policy of selling the Inch Lines with top priority for oil transportation. Ickes wrote in his column that using the Inch Lines to transport natural gas would “end John L. Lewis’ stranglehold on the economy of the United States.”\textsuperscript{41} As president of the United Mine Workers, Lewis had ordered the nation’s coal miners to strike during the war and consequently aggravated energy shortages in Appalachia and along the eastern seaboard. The specter of future disruptions of energy supply by prolonged and often violent coal miners’ strikes was a powerful incentive for government officials to reconsider their policy of favoring oil over natural gas in the sale of the Inch Lines.

Amid the political intrigue and public concern over the bid, the WAA was in a quandary. Despite the Symington Report’s recommendation to use the Inch Lines to transport oil, political pressure from supporters of natural gas such as the Texas Railroad Commission, Harold Ickes, and major oil companies had stalled the process of selling the Inch Lines. To assist in evaluating the various proposals for the pipelines, the WAA created a Special Advisory Council, which met to discuss the bids for the Inch Lines. This group included representatives of federal departments and agencies involved with oil- and gas-related matters. The council met on October 9 and 14, but it reached no consensus on how to dispose of the Inch Lines. Two council members, the Army-Navy Petroleum Board and the Department of the Interior, nonetheless issued important statements supporting the conversion of the Inch Lines to natural gas.

The prime consideration of the Army-Navy Petroleum Board was that the Inch Lines would be available for petroleum shipments in the event of a national emergency, but it voiced no objection to a sale of the Inch Lines for natural gas use as long as the government could recapture the pipelines.
for petroleum use within ninety days of a national emergency. The Department of the Interior offered indirect support for the conversion to natural gas by expressing concern over the tremendous quantities of flare gas wasted in Texas which might otherwise be transported to markets by the Inch Lines. Without a clear consensus, the WAA invited the Federal Power Commission to join in the planning for the disposal of the Big and Little Big Inch Pipe Lines. Aware of the intense political controversy swirling around the issue, the FPC declined this invitation and stayed out of the bidding process.\(^{42}\)

By late October and early November, several articles in trade journals and daily newspapers cited rumors that the WAA was ready to award the Inch Lines to a bidder for oil transportation. In one of these articles, Elliot Taylor, editorial director of the journal *Gas*, claimed that the WAA was on the verge of awarding the Inch Lines to Charles H. Smith's Big Inch Oil, Incorporated, presumably because this bid corresponded most closely with the SPA's surplus property disposal policy.\(^{43}\)

The Poe group also heard the rumors. William H. Leslie, an aide to George Brown, wrote Brown of a conversation with J. Ross Gamble, a Washington-based attorney who represented the Poe group. Gamble reported that "it is extremely likely that the Big Inch Oil, Inc. bid will be recommended for approval unless our group takes early and aggressive steps to prevent this happening." Leslie continued to say that if a sale of the Inch Lines would not be made for natural gas transportation, "he thinks that steps should be taken to encourage members of congress to request or instruct that congress be given a chance to investigate the matter more fully to determine what usage the lines should be sold for. This might result in a delay which might give our group time to fight the opposition more successfully by bringing public and congressional opinion around to our way of thinking."\(^{44}\) Publicly, the Poe group responded to the rumors when Poe told the media that the WAA would be responsible for the continuing waste of natural gas in the Southwest if the pipelines remained in oil service.\(^{45}\)

As the WAA wallowed in confusion, the supporters of a sale of the Inch Lines to a gas bidder received an unexpected boost. John L. Lewis assisted their cause when he began threatening to call another nationwide coal strike. Lewis's threats sparked an immediate public backlash against him, and this sentiment encouraged support of a sale of the Inch Lines for natural gas transmission. Both Harold Ickes in his syndicated column and Marshall McNeil flailed Lewis for threatening to strike. Ickes suggested
that a good dose of natural gas competition via the Inch Lines would serve Lewis right. And Ickes chastised the WAA for simply not selling the Inch Lines to the highest bidder. Anything else, he wrote, "is just plain politics."  

Lewis was apparently unconcerned about inadvertently supporting a conversion of the Inch Lines to natural gas. On November 20, he declared void the contract between the government and his coal labor union of some 400,000 members to which they had mutually agreed during the previous May. The resulting strike proved short-lived, as Lewis, after the government fined both him and his union, called off the strike on December 7. Numerous newspaper articles and editorials accused Lewis of creating a national fuel shortage after having insulated himself from its effects. "Lewis' house at Springfield won't be cold on account of the coal strike," the Washington Post reported. "The United Mine Workers chief had gas heating installed in June, 1945." At the same time, Harold Ickes accused John R. Steelman, a close Truman associate and the reconversion director, of conspiring with Lewis in trying to delay the disposition of the Inch Lines. Steelman denied the charge. But the publicity surrounding Lewis's actions and the growing fear of increased fuel shortages in Appalachia gave the WAA an added rationale for favoring the conversion of the Inch Lines to natural gas.

Early in November, Big Inch Oil, Incorporated, the bidder rumored to be the likeliest winner of the bid, filed a letter with the WAA stating its willingness to help relieve the shortage of natural gas in Appalachia. Tom Corcoran of the Big Inch Natural Gas Transmission Company told an attorney for the Poe group that he would soon do the same. The combination of the coal strike and the Appalachian shortage gave the gas bidders an increasing advantage in the bidding war.

The failure of the advisory board to reach a conclusion on the sale of the Inch Lines portended a renewed congressional investigation into the Inch Line question, something gas bidders wanted all along. On November 19, the Select Committee of the House of Representatives to Investigate the Disposition of Surplus Property (referred to as the Slaughter Committee after its chairman, Roger C. Slaughter) met with the sole purpose of determining the best way to dispose of the Inch Lines. These hearings became a forum for the continued debate on the Inch Lines. Thirty-nine individuals, representing all facets of the energy industries, testified concerning the disposition of the Inch Lines. Fifteen of the individuals who testified supported a sale for natural gas use; ten
favored oil transportation; two wanted one of the pipelines to be used for natural gas and the other for oil. Some speakers argued that the Inch Lines should not be used for natural gas or oil, but they gave no alternative. Once again, the hearings illustrated the intense competition generated by the Inch Lines among different industries.

THE FIRST AUCTION IS VOIED

On the opening day of the hearings, General Robert M. Littlejohn, chairman of the WAA, cleared the air by announcing a decision to reject all previous bids for the Inch Lines. Littlejohn, who had been WAA administrator since July 22, 1946, and previously held the post of chief quartermaster of the European Theater of Operations, had been frustrated over the months of delay in selling the Inch Lines. His decision to reject the previous bids was an attempt to start the process over again on new terms. Espousing the philosophy of his West Point wrestling coach, "There ain't no hold that can't be broke," Littlejohn was ready to break the Inch Line logjam. In support of Littlejohn’s decision to throw out the bids, the interagency committee studying the disposal policy stated: “It had become evident that the interest of national defense could be met regardless of whether the pipe lines be used for natural gas, petroleum and its products, or a combination thereof . . . the bids had been invited on a restricted basis, which precluded the government from securing the maximum net cash return.” Since the highest cash bids had been those for converting the Inch Lines to natural gas, this statement suggested a giant step away from the policy called for by the Symington Report. In fact, the Symington Report had been largely discredited after Stuart Symington testified at a congressional hearing that one of his young and inexperienced aides who had virtually no knowledge of the oil and gas industries wrote most of the report. Littlejohn also announced that the WAA had estimated the fair value of the Inch Lines to be $113,700,000 as of September 30, 1946, a figure significantly greater than the highest cash value bids previously received.

John L. Lewis's coal strike, combined with an increasingly severe energy crisis, prompted the various government agencies to seek a role for the Inch Lines to alleviate the energy shortage. Several bidders and Tennessee Gas discussed with the WAA the possibility of temporarily leasing the Inch Lines to alleviate the Appalachian fuel shortage. Other participants in the meeting included representatives of Big Inch Natural
Gas Transmission Company, Big Inch Oil, Incorporated, and Transcontinental Gas Pipe Line Company. Claude Williams, president of Transcontinental, also expressed interest in leasing the Inch Lines during a radio interview on "Headline Edition" on November 26. These interested parties met with representatives of the Department of the Interior, FPC, Army-Navy Petroleum Board, and War Assets Administration to determine how best to utilize the Inch Lines to alleviate the Appalachian fuel shortage. Tennessee Gas was the only operating gas pipeline and consequently gained the edge against the others.53

Tennessee Gas had been interested earlier in acquiring the Inch Lines, but the company decided after making a thorough study of them that it had its hands full with its own Appalachian service area; Tennessee Gas did not join the sixteen other firms that did bid on the Inch Lines on July 31. Although the Inch Lines extended through the Appalachian region, they also passed through Pennsylvania and into New York; they were well situated to serve customers in the northeastern market area. But Tennessee Gas, said its president Gardiner Symonds, "had so much to do to meet the needs of our companies in the Appalachian area that we could not, until we had completed the construction of all the facilities we sought—and we have since sought additional facilities—have any interest in operation or ownership of the Big or Little Inch lines to seek a new service area."54

LEASING THE INCH LINES

However, Tennessee Gas's Washington attorney, Robert May, discussed with the WAA in September the possibility of leasing the lines. On October 23, Tennessee Gas had formally offered to lease and interconnect them with its own system in order to serve the Appalachian region. The company proposed only to lease the Inch Lines temporarily to alleviate the Appalachian fuel shortage.55 The WAA responded that as it was still in the midst of analyzing the previously submitted bids for the lines, it could not process Tennessee Gas's proposal.

On November 29, the company made a formal proposal to lease the Inch Lines on a temporary basis and deliver gas to Appalachia—but not farther eastward. In its letter to the Department of the Interior, Tennessee Gas described its ability to act promptly and disclosed its willingness to have the FPC direct the disposition of the natural gas it would transport. A cover letter dated November 30, 1946, described Tennessee Gas's purpose
for leasing the Inch Lines: "TG&TC desires to emphasize the fact that the sole purpose of its proposal is to attempt to effect a temporary connection of these lines with the existing facilities of the Tennessee Company in order to meet the emergent need for natural gas in the Appalachian area. This proposal covers only a short term lease and does not contemplate permanent operation of these lines." 56

The proposal for an interim lease identified four major Appalachian gas companies as the primary recipients of the natural gas: Ohio Fuel Gas Company, Manufacturers Light and Heat Company, Kentucky Natural Gas Company, and East Ohio Gas Company. Up to 120 mmcf/d was currently available for transport, and Tennessee Gas was to receive $0.24 per mcf and pay the government $0.06 per mcf sold. Tennessee Gas also agreed to spend $250,000 for material and installation involved in converting the lines for natural gas use and connecting them to Tennessee's own lines.

On December 2, the WAA accepted Tennessee's proposal and issued the company a letter of intent to operate the pipelines. Presumably, Tennessee received the letter instead of the other interested companies because it was an operating gas company which could most quickly and efficiently put the Inch Lines into service. The lease began at 12:01 A.M. on December 3, 1946, and was to expire at midnight on April 30, 1947. 57 Tennessee Gas had insisted on a lease lasting at least through April to prevent it from losing money on the project. The ever-present Harold Ickes, in both congressional testimony and in his syndicated column, condemned the lease agreement. He characterized Tennessee Gas as attempting to monopolize all natural gas shipments to the Northeast, and he also accused the company of pulling political strings and preventing a possible competitor from even temporarily operating the Inch Lines.

Tennessee did interconnect its system with the Inch Lines near Many, Louisiana, and began pumping gas into the Little Big Inch and the Big Inch on December 5 and December 9, respectively. By December 11, gas was flowing to consumers in Ohio. However, the company did not actually convert the pumping stations along the Inch Lines to transmit natural gas; instead, it simply operated them without compressor stations by using only the 140-pound pressure exerted by the natural gas emerging from the various connecting wells. Tennessee's operation of the Inch Lines proved their viability for transporting natural gas and seemed to give that company an apparent edge in the next round of the bidding. Not to be outdone and uncertain of the fate of the Inch Lines, Claude Williams then
applied to the FPC for a certificate of public convenience and necessity to construct a new pipeline to the Northeast just in case he might be unsuccessful in winning the bid for the Inch Lines.

The FPC's mounting concern over the energy shortage in Appalachia also prompted it to impose emergency service rules on December 12, 1947, for the Panhandle Eastern Pipeline Company. Panhandle Eastern's pipeline system extended from the gas fields of the Texas Panhandle and southern Oklahoma into large markets in Missouri, Illinois, Indiana, Ohio, and Michigan. Under its broad powers to regulate the interstate transmission of natural gas, the FPC required Panhandle Eastern to supply gas on an emergency basis to certain customers in Appalachia, and to curtail all its interruptible industrial customers so that residential users requiring space heating would not freeze during the winter. The interim lease to Tennessee and the emergency service rules imposed on Panhandle Eastern clearly indicated that the Inch Lines were needed to deliver natural gas to the Appalachian region.

WAA administrator Littlejohn reconsidered the disposal policy for the Inch Lines, surely stinging all the while from constant high-profile criticism for inaction by Harold Ickes and others. On December 18, he issued three basic recommendations for a revised policy on the sale of the Inch Lines: (1) The Inch Lines should be disposed of for natural gas or oil; (2) all pumping and other oil equipment should be maintained by the purchaser so government could recapture the pipelines within ninety days of a national emergency; and (3) the sale should be made to the purchaser offering the greatest net return in dollars to the United States government. These new provisions included additional challenges to the bidders. If the oil-pumping stations had to be maintained by the purchaser, the natural gas bidders would have to determine for themselves whether the stations could be kept in their pipeline's rate base. Otherwise, the company could not factor the cost of the stations into their gas sales rates, and the stations would then be a wasted expense. The provision calling for the greatest net return tended to undermine the Surplus Property Act's concern for competition and the Symington Report's focus on national security, but it did not preclude an oil company from submitting a winning bid. Again, the consideration of the winning company's rate base was critical. It was unclear whether the depreciated value of the lines on the government's accounting books, the original cost of the lines, or the value of the bid plus conversion costs would form the new rate base.
THE SECOND AUCTION

Now convinced of the viability of using the Inch Lines for natural gas transmission, Littlejohn announced on December 27 a new bid for the Inch Lines. All bids were to be submitted to the War Assets Administration, Office of Real Property Disposal, Industrial Division, P.O. Box 2707, at the Washington, D.C., post office. The bids would be made on standardized forms, including a section requiring each bidder to detail its plans for the utilization of flare gas, to the WAA at noon on Saturday, February 8, 1947. To purchase the Inch Lines, the successful bidder would be required to make four payments over a nine-month period. The first payment of $100,000 would accompany the actual bid as a deposit. A second payment of $1 million would follow the WAA's issuance of a letter of intent to sell the pipelines to the high bidder. The third payment of $4 million would be due on the day the bidder began operating the Inch Lines. The winner of the bid would make the final payment to be collected and transferred to the WAA to complete the purchase within nine months of the date of the letter of intent.

Littlejohn sent his official report to Congress on January 3, 1947, and stated his intention to sell the Inch Lines for either oil or natural gas. Congress then had thirty days to consider the WAA's recommendation that the Inch Lines be sold for either the transportation of oil, its products, or natural gas or a combination of them. On the same day and in response to Littlejohn's report, Representative Francis E. Walter of Pennsylvania introduced a congressional resolution, H.J. Resolution 2, to prohibit the WAA from selling the Inch Lines until six months after the final report of the FPC's major Natural Gas Investigation (docket G-580). Walter, who represented Pennsylvania's anthracite coal industry, adamantly opposed the use of the Inch Lines for natural gas. He feared that the coal industry would not survive competition with natural gas for northeastern fuel markets.

The House Committee on Interstate and Foreign Commerce then held hearings to discuss the Walter resolution. In order to consider H.J. Resolution 2, the House Committee on Interstate and Foreign Commerce directed the FPC to provide as soon as possible a report on the natural gas industry. The FPC produced the report, titled *Statement on Natural Gas for the House Committee on Interstate and Foreign Commerce with Reference to H.J. Res 2 on Disposition of the Big Inch and Little Big Inch Pipelines*, on January 23, 1947. It described the tremendous natural gas reserves in the
Southwest, the outrageous volumes of gas (1 bcf/d in Texas and 2 bcf/d in the Southwest as a whole) flared or vented into the atmosphere each day, as well as the growing demand for natural gas in the Northeast.

In a last-minute attempt to persuade Congress to adopt his resolution against increasingly difficult odds, Walter discussed the economic effect the Inch Lines as natural gas pipelines would have on the railroad industry. He argued that if converted to natural gas, “the Inch Lines would transport an annual equivalent of about five to six million tons of coal . . . [and if] the densely populated Eastern Seaboard is afforded natural gas service for domestic, industrial and commercial purposes, the quantities necessary to meet the demands of that area will result in the displacement of enormous quantities of solid fuel.” Walter continued:

The competitive threat to the railroad industry as a result of the conversion of the Big Inch lines to natural gas is alarming. Anthracite coal is the very life blood of many of the railroads operating in the area in which my District is situated. The Eastern Seaboard is by far the greatest market for anthracite and a displacement of several millions of tons of this type of fuel could not but have an extremely serious effect upon what are generally termed the anthracite railroads. Bituminous coal is the fuel almost exclusively used for industrial purposes on the Atlantic Seaboard and in New England. A displacement of substantial tonnage of this type of fuel would have seriously detrimental repercussions on that segment of the railroad which supplies the transportation which brings bituminous coal to the eastern region.62

However, Walter’s statements changed few, if any, minds.

Congress did not adopt Walter’s resolution for several reasons, including the practical considerations that further delays in the sale of the Inch Lines would inevitably mean that the WAA would continue to incur an expense in maintaining the lines and probably receive a lower price for them when they finally would be sold. The rejection of still another six-month delay also suggested that Congress was growing weary of the protracted political in-fighting over the Inch Lines and was ready for this much publicized issue to be resolved one way or the other.

The debate over the Inch Lines continued, but it was clear that natural gas use was becoming an increasingly attractive option to both the WAA and even Congress. Not only would a natural gas bid bring the government a higher return on its investment in the Inch Lines, it also would open up a part of the country long dependent upon a troublesome fuel, coal, to an abundant supply of natural gas. On February 3, Congress cleared the
WAA to sell the Inch Lines for oil or natural gas use only five days before the February 8 deadline for the second round of bids.

Now, natural gas interests seemed in control of the process. The important element for each of the bidders was simply outbidding the others. Interested bidders engaged consulting engineers and Wall Street bankers to help them determine the value of the Inch Lines. Tennessee Gas, which was currently operating them under a temporary lease, had in its possession all the Inch Line accounting books and directed a team of accountants to “comb them out real thoroughly, . . . [to learn] exactly what the replacement cost of that system would be.” With the aid of Stone & Webster, Tenneco’s largest stockholder, Tennessee Gas settled on a bid of $123,127,000, which reflected the estimated depreciated cost of the Inch Lines, not their value as natural gas transporters.

Claude Williams was also preparing a second bid for the Inch Lines. He submitted to the WAA a bid of $131 million, only $1 million more than the estimated cost of an alternative gas pipeline that his company, Transcontinental Gas, proposed to build from Texas to New York. But Williams had originally planned to bid much higher. Working with two accountants from Kuhn, Loeb & Company, the Williams group earlier decided on a bid of $148 million only to have Kuhn, Loeb chairman, Elisha Walker, threaten the night before the bids were due to pull his firm’s financial backing out of the venture if Williams submitted such a high bid. Williams's group also felt pressure from its competitors. Charles Francis of the Poe group suggested to Transco days before the bid that the two companies submit a joint bid, but Clyde Alexander, a Williams associate, recalled that “all of the time I think that he was trying to find out how much we were going to bid.”

The E. Holley Poe group had reorganized specifically to bid on the Inch Lines. They renamed their company Texas Eastern Transmission Corporation, with George Brown as chairman and Poe as president. Texas Eastern contracted the services of Dillon, Read and Company, and August Belmont IV, vice president of the firm, worked with the group. Great-grandson of August Belmont, the American correspondent banker for the European Rothschild family and founder of the Belmont Stakes, Belmont had a name that evoked an aura of high capitalism. A small and energetic man, Belmont earned great respect for both his in-depth knowledge of investment banking and ability to communicate complicated transactions to the press. The Texas Eastern group worried about the regulatory constraints of the bid. Belmont recalled that Texas East-
ern’s promoters were unsure whether the FPC would allow it to “earn 6 percent on what you paid for the line, or whether you could only earn 6 percent of what the actual physical stuff on the books was.”

On the night before the bid, Brown, Poe, Francis, Hargrove, and August Belmont met to determine their bid. Belmont came to the meeting after agreeing with Douglas Dillon, chairman of Dillon, Read, on top figures for Texas Eastern’s bid. Belmont convinced Dillon that “the project could stand a price of $140 million” and asked Dillon to give him permission to suggest a $135 million bid, with authority to go as high as $140 million. Before the Texas Eastern night session was over, the group decided to bid $143,127,000, and Belmont received Dillon’s approval for the higher amount the next day.

On Saturday, February 8, all bids were due at WAA’s post office box. August Belmont, Ted Wadsworth, J. Ross Gamble, and George Pidot of Shearman & Sterling, Texas Eastern’s New York attorneys, delivered the bid to the War Assets Administration office located at the U.S. post office. To prove that they had actually deposited their bid at the post office and on time, they had a photographer take their picture on the post office steps. Gamble convinced the postmaster general, Robert E. Hannegan, who was a personal friend, to allow him to sit in the post office gallery and watch box 2707, in which the bids were being deposited, in case anyone attempted to open the box and view or remove any of the bids. By the end of the day, the WAA had received ten bids.

On February 10, WAA representatives opened each of the bids in a public hearing; five were accepted and for various reasons the other five were considered void (see table 4.2). The three highest bids received by the WAA were for natural gas use. Texas Eastern had submitted the high bid. The amount of $143,127,000 was only $2.5 million less than the Inch Lines’ original construction cost of $145.8 million, and it was more than $12 million above the second-highest bid of $131 million submitted by Claude A. Williams and Associates representing the Transcontinental Gas Pipe Line Company. Tennessee Gas and Transmission’s bid came in third at $123,700,000. The two other bids accepted by the WAA were from Big Inch Oil & Gas Corporation for $108,031,660 and Big Inch Natural Gas Transmission Company for $121,000,000. The low bid was submitted by J. W. Crotty of Dallas. He had pasted a dollar bill on the bid form, $0.60 for the Big Inch and $0.40 for the Little Big Inch. Crotty noted that the enclosed funds were all his, and he would be the principal executive, or in his words, “the whole cheese.”
### Table 4.2. Bids for the Big Inch and Little Big Inch, February 8, 1947

<table>
<thead>
<tr>
<th>Name</th>
<th>Proposed Use</th>
<th>Terms</th>
<th>Price Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas Eastern Transmission Corp.</td>
<td>gas</td>
<td>sale</td>
<td>$143,127,000</td>
</tr>
<tr>
<td>Transcontinental Gas Pipe Line Co., Inc.</td>
<td>gas</td>
<td>sale</td>
<td>131,000,000</td>
</tr>
<tr>
<td>Tennessee Gas Transmission Co.</td>
<td>gas</td>
<td>sale</td>
<td>123,700,000</td>
</tr>
<tr>
<td>Big Inch Natural Gas Transmission Co.</td>
<td>gas</td>
<td>sale</td>
<td>121,000,000</td>
</tr>
<tr>
<td>Russell Palmer†</td>
<td>oil or gas</td>
<td>sale</td>
<td>120,000,000</td>
</tr>
<tr>
<td>Big Inch Oil &amp; Gas Corp.</td>
<td>oil or gas</td>
<td>sale</td>
<td>108,031,660</td>
</tr>
<tr>
<td>George J. Callahan†</td>
<td>oil</td>
<td>sale</td>
<td>6,100,000</td>
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<td>Dr. John Bauer†</td>
<td>none</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>G. D. Gurley†</td>
<td>oil or gas</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>J. W. Crotty†</td>
<td>oil or gas</td>
<td>sale</td>
<td>1</td>
</tr>
</tbody>
</table>

**Notes:** By terms of the bid, cash due within nine months of receipt of letter of acceptance from the WAA.

†Bids ineligible, not accompanied by $100,000 deposit or otherwise incomplete.

**Source:** War Assets Administration, Proceedings of Reading of the Bids for the Big and Little Big Inch Pipelines, February 10, 1947.

As the winning bidder for the Inch Lines, Texas Eastern became an overnight force in the burgeoning interstate natural gas pipeline business. The Inch Lines attracted the attention of an incredible array of politicians and businessmen, and untold efforts were undoubtedly undertaken by various bidders to ensure a successful outcome. But the rumors and suspicions of unsavory activity surrounding the bid gradually faded before a new reality of the postwar prospects for the expansion of the natural gas industry. Demand was high and prices were low (see table 4.3).

The war years stimulated renewed growth in the natural gas industry. Specifically, increased demand focused attention on the great waste of southwestern natural gas. Bill Murray, a Texas Railroad Commission employee who later became a commissioner, recalled, “I was appalled at the waste.” But with pipelines to connect the gas fields with eager customers, gas production would become a profitable venture. The bid for the Inch Lines represented the wartime government’s last major involvement in this era of gas industry expansion. The war was a catalyst for the construction and operation of new natural gas pipelines connecting southwestern fields with northeastern markets, but peacetime market
### Table 4.3. Average Natural Gas Wellhead Prices (cents per mcf)

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>7.6</td>
</tr>
<tr>
<td>1935</td>
<td>5.8</td>
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<td>1940</td>
<td>4.5</td>
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<td>1943</td>
<td>5.2</td>
</tr>
<tr>
<td>1944</td>
<td>5.1</td>
</tr>
<tr>
<td>1945</td>
<td>4.9</td>
</tr>
<tr>
<td>1946</td>
<td>5.3</td>
</tr>
<tr>
<td>1947</td>
<td>6.0</td>
</tr>
<tr>
<td>1948</td>
<td>6.5</td>
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forces would now dictate industry growth. The large metropolitan areas of Philadelphia, New York, and Boston desired gas and could now reasonably expect to receive it. Having won the highly politicized government auction for the Inch Lines, Texas Eastern faced new challenges in the expanding natural gas industry.